

EMBARGOED UNTIL NOON, MARCH 8, 2013

**Administrative Structure Analysis and Key Cost Benchmarking
at the University of Minnesota**

Progress Report to the Minnesota Legislature

March 2013

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[TO BE CREATED BY DESIGNERS IN FINAL LAYOUT]

Section One

Legislative Request and Executive Summary

Legislative Request

On January 8, 2013, Senator Terri E. Bonoff, chair of the Higher Education and Workforce Development Committee, and Senator Thomas M. Bakk, majority leader, wrote President Eric Kaler to request a “data driven approach to analyzing the cost of delivering educational services” at the University of Minnesota. Senators Bonoff and Bakk called for a short-term analysis, such as a “spans and layers” study, as well as an in-depth, longer-term examination similar to those conducted by “other Big 10 universities.” Asking for an interim report no later than March 15, 2013, Senators Bakk and Bonoff requested these studies to “develop clear and measurable analytics so that efficiency goals can be met.”

The scope of work for the report was shared and submitted to Senator Bonoff and staff - as well as the legislative auditor - on Friday, January 25, 2013. To date, the University has committed up to \$48,000 to the spans and layers analysis. An additional \$495,000 of University resources will be expended to complete the benchmarking diagnostic work represented in this report.

The University of Minnesota submits this progress report on the findings of the initial spans and layers assessment completed by an external, third-party expert: Sibson Consulting. Also included are steps taken to date to complete an administrative cost benchmarking and diagnostic study. Both can be found in section two of this report. Section three places these analyses in the context of other institutional analytics the University has developed in the past year, while section four provides a high-level overview of Operational Excellence, President Kaler’s long-term commitment to work smarter, reduce costs, enhance services, and reallocate resources to the University’s core mission. As President Kaler has stated, the University is committed to reducing the cost of administration and is working hard to do so throughout the institution. This report provides an update regarding that work while looking toward an even more efficient, cost-effective future.

Executive Summary

The University of Minnesota, under the leadership of President Eric Kaler, has committed itself to driving down administrative costs in order to reallocate resources into its core teaching, research, and public engagement mission. This report provides a snapshot of this work to date. It begins with a progress report of our spans and layers analysis, which will be completed in summer 2013. It also includes actions taken to date to launch an administrative services benchmarking and diagnostic study, to be completed by May 31, 2013. The University looks forward to the results of these studies and what they will tell us about opportunities for further cost savings throughout our organization.

Spans and Layers Analysis: Measuring Organizational Reporting Structures

The University of Minnesota retained Sibson Consulting, a division of the Segal Company, to conduct a spans and layers analysis of four central administrative units: Office of Human Resources, Office of Budget and Finance, Office of Information Technology, and Purchasing Services, which performs procurement functions for the University. Taken together, these units comprise three of the four administrative (non-academic) vice presidential units that report to the president. Given the breadth of these units and the short time frame under which this work was to be accomplished, the assessment was limited to these units; however, the University will complete a spans and layers analysis of the remainder of the organization, to be concluded by summer 2013. Results of this larger analysis will be made public.

Initial Findings: Two Ways of Analyzing the Data

Sibson Consulting and management consulting firm Bain & Company use different methodologies for assessing an organization's spans and layers. This report addresses both.

According to Bain's approach:

- The University of Minnesota is close to alignment with best practices related to levels in the units assessed. Bain generally recommends no more than five or six levels in an organization from an organization's leader to front-line employees.¹ Three of the central administrative units examined are in alignment at six levels. The fourth, Finance, has seven.
- The University of Minnesota could improve the spans of control per supervisor. Bain generally recommends spans of control of seven or more direct reports, depending on the type of work being done in the unit in question. Average spans of control in the four units analyzed range from a low of 3.63 direct reports per supervisor in Procurement to a high of 9.53 direct reports per supervisor in OIT. Using Bain's benchmarks, the University could do more to increase the number of direct reports per supervisor across these four areas.

According to Sibson's approach:

¹ See Bain & Company, "Achieving Operational Excellence at University of California, Berkeley. Final Diagnostic Report – Complete Version." (April 2010). Available online at: oe.berkeley.edu/phase1/full.pdf.

- The four units assessed, in general, are starting from a solid organizational foundation, but can be further optimized for effective decision making and operational efficiency.

Sibson works from a starting hypothesis that the ratio of average spans of control to levels in the organization should be 1.0 or higher—meaning that an effective organization is broader (or has greater spans of control) than it is deep (the number of organizational levels). Although instances exist across all four units where the University can streamline its spans and layers, Sibson reports that, for the most part, the University's ratio of spans to layers within these central administrative offices meet this initial criterion.

Administrative Services Benchmarking and Diagnostic Study

While analyzing spans and layers is one way of improving the effectiveness and efficiency of an organization's structure, other factors such as cost, complexity, and utilization of best practices are also important. To that end, the University has retained Huron Consulting Group, a global consulting firm that has worked with ninety-four of the top one hundred research universities, to benchmark University administrative practices and costs across four functional areas: human resources, finance, information technology, and procurement. This project will take approximately twelve weeks to complete. When finished it will:

- identify, scale, and prioritize opportunities for improvement;
- describe primary factors such as technology, organizational structure, and service delivery models which may currently impact performance in each area; and
- provide comparative data and leading best practices that may have applicability to the University of Minnesota.

We will make Huron's findings public when available.

Institutional Analytics: Placing Findings into Context

While the University is confident that the findings from both these analyses will help us drive down administrative costs, they only provide two views of our complex, multifaceted organization. To understand the fuller picture, it is important to understand the context of additional institutional analytics and benchmarks, detailed in section three. As the legislature appreciates, the University must be guided by a data-driven approach to address these issues.

Operational Excellence: Driving Change Across the University

We are pleased to report that much has been done over the course of the last several years to reduce the size and expense of administration. From strategic sourcing initiatives to reducing the number of supervisors, and from centralizing reporting lines and standardizing and consolidating operations to closing offices that are no longer serving mission critical functions, the University is taking action to reduce its administrative spend across the enterprise. We will continue to do so. Section four provides a high-level overview of these initiatives while acknowledging areas for future improvement.

In particular, the University is focused on addressing a few core issues:

- We are a very decentralized organization, which, while providing units important autonomy and nimbleness, can also lead to redundancy (for example, duplication of IT help desks, an issue currently being addressed), institutional silos, and lack of alignment.

- We have a risk-averse culture, which imposes unnecessary work and administrative burdens on faculty and staff.
- Our Human Resources information system is out-of-date, hampering our ability to accurately benchmark or make data-driven decisions.

Next Steps: A Commitment to Change

The University will complete the two, third-party analyses described above by summer 2013.

The findings of these reports will then be acted upon accordingly. The University will be thoughtful, assessing the impact, position by position, of any reorganization. We must be guided both by an ideal organizational structure and also ensure that the right people are doing the right work in the right way at the right level of the organization. That is work that we have already begun as part of Operational Excellence, and it is work that we will continue to do moving forward. This is our commitment to change.

Section Two

Spans and Layers Analysis
and
Administrative Services Benchmarking and Diagnostic Study

Spans and Layers Analysis

Overview

In January, Senator Terri E. Bonoff, chair of the Higher Education and Workforce Development Committee, and Senator Thomas M. Bakk, majority leader, requested a spans and layers analysis be conducted by a third party as part of a larger effort to examine the University's administrative organization and costs. The University contracted with Sibson Consulting, a division of the Segal Company, a leading independent benefits, compensation, and human resources consulting company, to conduct this analysis. Sibson's work within the higher education sector has been extensive: the firm's client list includes more than 150 colleges and universities, public and private, and its higher education partnerships include the College and University Professional Association for Human Resources (CUPA-HR), the National Association of College and University Business Officers (NACUBO), and the Association of Governing Boards (AGB). Given the compressed timeframe, Sibson's experience working with the University on its job classification structure and its expertise in this area were invaluable. They conducted and delivered this interim analysis in one month, including findings and recommendations.

The study focused on four central administrative units: the Office of Human Resources (OHR), the Office of Budget and Finance (Finance), the Office of Information Technology (OIT), and Purchasing Services, which perform procurement functions for the University (Procurement). These four areas comprise three of the four administrative (non-academic) vice presidential units that report to the president. Given the abbreviated timeframe and complexity of these organizations, they are the only ones we could adequately assess. We are committed to completing analysis of the entire organization, as described below.

Using data from the University's human resources position management system, Sibson examined total headcount, number of supervisors, and number of non-supervisory employees; minimum, maximum, and average spans of control; and total and average salary spend for all employees, supervisory and non-supervisory, by unit and by layer within each unit.

Initial Findings: Two Ways of Analyzing the Data

Method One

The tables in Figure 2.1 show supervisory and non-supervisory headcounts by unit and level. The management consulting firm Bain & Company provides one way of understanding this data based on benchmarking numbers. According to Bain's approach:

- The University of Minnesota is close to alignment with best practices related to levels in the units assessed. Bain generally recommends no more than five or six levels in an organization from an organization's leader to front-line employees.² Three of the central administrative units examined are in alignment at six levels. The fourth, Finance, has seven.
- The University of Minnesota could improve its number of spans per supervisor. Bain generally recommends spans of control of approximately seven direct reports or higher,

² See Bain & Company, "Achieving Operational Excellence at University of California, Berkeley. Final Diagnostic Report – Complete Version." (April 2010). Available online at: oe.berkeley.edu/phase1/full.pdf.

depending on the type of work being done in the unit in question. Average spans of control in the four units analyzed range from a low of 3.63 direct reports per supervisor in Procurement to a high of 9.53 direct reports per supervisor in OIT. According to Bain's analysis, the University could do more to increase the number of direct reports per supervisor across these four areas. This work will require careful analysis, position by position, to ensure that potential changes make sense.

OFFICE OF HUMAN RESOURCES							OFFICE OF INFORMATION TECHNOLOGY						
LEVEL	HEADCOUNT			SPAN			LEVEL	HEADCOUNT			SPAN		
	ALL	NON SUPERVISORS	SUPERVISORS	MINIMUM	MAXIMUM	AVERAGE		ALL	NON SUPERVISORS	SUPERVISORS	MINIMUM	MAXIMUM	AVERAGE
1	1	0	1	9	9	9.00	1	1	0	1	14	14	14.00
2	9	2	7	1	11	5.43	2	14	5	9	1	18	8.11
3	38	18	20	1	12	5.15	3	73	50	23	1	38	12.87
4	103	98	5	1	5	2.20	4	296	282	14	1	17	4.64
5	11	11	0	N/A	N/A	N/A	5	65	65	0	N/A	N/A	N/A
6	0	0	0	N/A	N/A	N/A	6	0	0	0	N/A	N/A	N/A
Total	162	129	33	1	12	4.88	Total	449	402	47	1	38	9.53
% OF TOTAL		80%	20%				% OF TOTAL		90%	10%			

FINANCE							PROCUREMENT						
LEVEL	HEADCOUNT			SPAN			LEVEL	HEADCOUNT			SPAN		
	ALL	NON SUPERVISORS	SUPERVISORS	MINIMUM	MAXIMUM	AVERAGE		ALL	NON SUPERVISORS	SUPERVISORS	MINIMUM	MAXIMUM	AVERAGE
1	1	0	1	9	9	9.00	1	0	0	0	N/A	N/A	N/A
2	9	3	6	3	15	5.83	2	0	0	0	N/A	N/A	N/A
3	29	13	16	1	9	3.25	3	3	1	2	3	8	5.50
4	52	35	17	1	6	2.76	4	11	7	4	2	6	3.25
5	47	43	4	1	12	6.75	5	13	11	2	1	4	2.50
6	27	27	0	N/A	N/A	N/A	6	0	0	0	N/A	N/A	N/A
TOTAL	165	121	44	1	15	3.86	TOTAL	32	24	8	1	8	3.63
% OF TOTAL		73%	27%				% OF TOTAL		75%	25%			

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Figure 2.1. Supervisory and non-supervisory headcounts by unit and level.

Method Two

Sibson's approach to the data differs from Bain. Sibson begins its spans and layers analyses with a starting hypothesis that the ratio of average spans of control to levels in the organization should be 1.0 or higher—meaning that an effective organization is at least as broad as it is deep.

This ratio is an emerging industry standard, but it is also a starting point, not an end in itself. Extremes in either direction can be problematic—more narrow and vertical organizations can be top heavy, sluggish, and expensive; while extremely flat and broad organizations can be disorganized and difficult to manage effectively. Organizations that have a ratio of spans to layers below 1.0 should examine the organizational structure and the work being done in these areas more closely to determine whether change is needed. The same holds true for ratios well above 1.0.

According to Sibson, the four units assessed, in general, are starting from a solid organizational foundation. In the tables in Figure 2.2, the “stepped” red lines indicate the 1.0 ratio of spans to layers—Sibson's baseline criterion. Numbers that appear to the right of the line indicate an

appropriate ratio of spans to layers (1.0 or above; broader rather than deeper). For example, in the case of the Office of Human Resources (OHR), 129 people have no layers beneath them (or have no direct reports), so their span of control is appropriately zero. However, eight employees (highlighted in light blue), have supervisory responsibilities for just one person each. Any supervisor at the top of two layers should ideally be responsible for two or more direct reports at a minimum—so an opportunity exists to streamline the organization in this specific area. The pie chart above the table illustrates the percentage of the OHR organization this represents; i.e. 5 percent of the OHR organization does not meet the baseline criterion in this respect.

The data from the other three units demonstrated similar structures. The Office of Information Technology (OIT) has ten employees supervising one direct report—representing 2 percent of the OIT organization that does not meet the baseline criterion; Finance has eleven employees in this position, representing 7 percent. Procurement has three employees with one or two direct reports—this represents 9 percent of the procurement organization. The numbers of direct reports for each of these employees should presumably be higher. More specific recommendations for addressing these opportunities are outlined below.

OPPORTUNITIES FOR STREAMLINED ORGANIZATIONAL STRUCTURE AND IMPROVED EFFICIENCIES

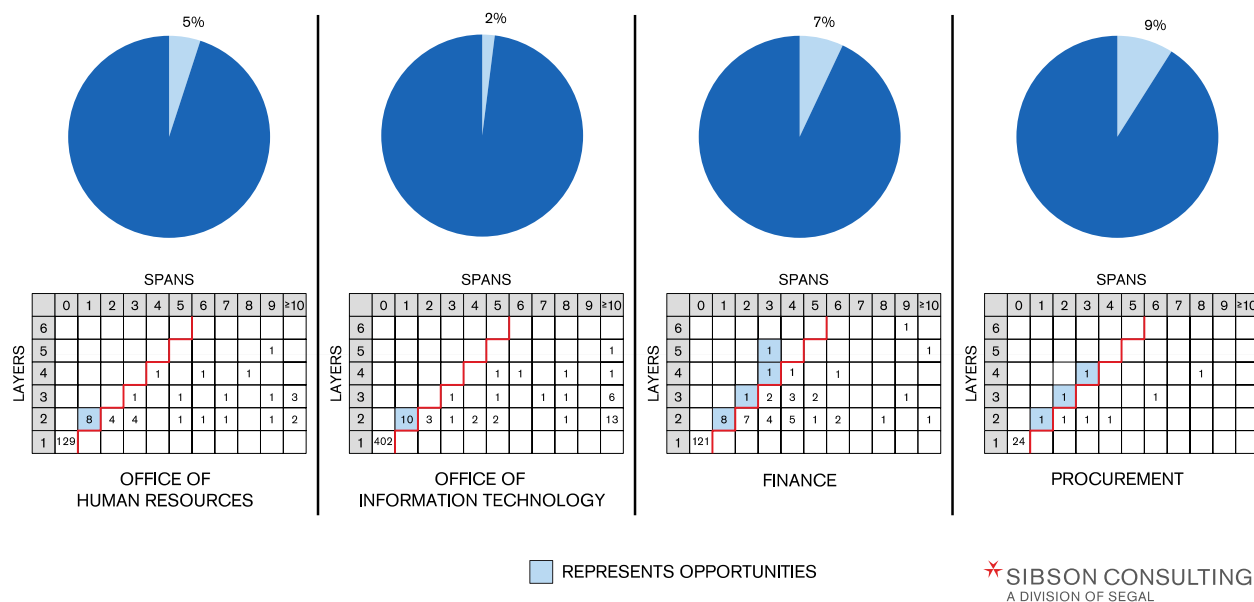


Figure 2.2. Opportunities for improvement in the four units assessed.

In addition to the spans and layers analysis, Sibson analyzed the salary spend of the University in these four units. Average salaries for employees in these units range widely, based on organizational level, skill-level, and responsibilities. See Table 2.3 for details.

OFFICE OF HUMAN RESOURCES						OFFICE OF INFORMATION TECHNOLOGY					
TOTAL SALARY			AVERAGE SALARY			TOTAL SALARY			AVERAGE SALARY		
ALL	NON SUPERVISORS	SUPERVISORS	ALL	NON SUPERVISORS	SUPERVISORS	ALL	NON SUPERVISORS	SUPERVISORS	ALL	NON SUPERVISORS	SUPERVISORS
\$10,697,854	\$7,595,027	\$3,102,827	\$66,036	\$58,876	\$94,025	\$33,834,681	\$28,661,011	\$5,173,670	\$75,356	\$71,296	\$110,078
	71%	29%					85%	15%			

FINANCE						PROCUREMENT					
TOTAL SALARY			AVERAGE SALARY			TOTAL SALARY			AVERAGE SALARY		
ALL	NON SUPERVISORS	Supervisors	ALL	NON SUPERVISORS	Supervisors	ALL	NON SUPERVISORS	Supervisors	ALL	NON SUPERVISORS	Supervisors
\$11,918,207	\$7,394,276	\$4,523,931	\$72,232	\$61,110	\$102,817	\$2,019,001	\$1,380,573	\$638,427	\$63,094	\$57,524	\$79,803
	62%	38%					68%	32%			


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Figure 2.3. Average salaries for employees in the four units assessed.

According to an annual report to the Board of Regents, faculty and staff salaries are in keeping with the marketplace and somewhat lower than the private sector salaries for similar positions. In fact, the University began falling behind the market in terms of both budget and average salary increases in fiscal 2010 and is currently 1.8 percent below the education market and 3.2 percent below the local market.

Opportunities for Improvement

Using either Bain's or Sibson's approach, there are clear areas where the University of Minnesota can work to improve its organizational structures in the units assessed. The most lasting opportunity for enhanced efficiency, however, lies in a thorough review of each position in the organization and the redesign of the work itself, not just the organizational structure. A case study of the University Libraries illustrates this point. In 2012, U Libraries undertook an in-house study of spans of control in its organization (for detail, see "Case Studies"). They identified a number of opportunities to streamline their organization and broaden spans of control, and then conducted a more comprehensive strategic organizational review, looking at each position and the work needs of the organization to determine how best to improve. As a result, U Libraries significantly reduced its overall number of supervisors by sixteen and increased the average number of direct reports per supervisor from 3.8 to 4.7. The Office of Information Technology recently adopted a similar approach, reducing their number of managers from seventy to twenty, redirecting the time spent by fifty people on supervisory tasks to other priority work in OIT.

These are significant improvements, and other similar opportunities to optimize our organizational structure no doubt exist at the University. The good news is that in areas like the four examined by Sibson, the University is starting from a position of relative strength.

SIDEBAR

Case Studies

University Libraries

In 2012, University Libraries undertook an organization review, which included an analysis of spans of control similar to what Sibson conducted. They looked specifically at the number of supervisors, the number of non-supervisory employees, and the number of supervisors responsible for just one direct report, two direct reports, three direct reports, and so on.

The results were striking: They found forty-seven supervisors with fewer than five direct reports (versus twenty-seven supervisors with more than five reports). U Libraries then undertook a thorough review of the work of their organization and each position, strategically reorganizing structures and processes to yield a more streamlined and efficient model. As a result, they reduced the overall number of supervisors in the organization by sixteen (22 percent) and the number of supervisors with fewer than five direct reports by 43 percent. They also implemented an intensive training program for managers to help realign their staff and resources to their strategic priorities.

Office of Information Technology

In February 2012, the Office of Information Technology (OIT) had approximately seventy managers for 375 staff. By implementing a new organizational structure and service delivery model, they now have only twenty managers. As a result of the reduction in managers, OIT has been able to redirect about \$5 million from management to direct support, such as assisting faculty in developing online courses (see “Administrative Services Benchmarking and Diagnostic Study on page ## for more on these categories). In addition, each staff member in the organization has no more than two layers of management between them and the vice president for IT, enabling direct, two-way communication between leadership and staff and clearer understanding of strategy and direction.

Lessons learned:

- Analyzing spans of control helps to identify opportunities to streamline an organization, improve efficiency, and enhance mission delivery.
- Such analyses, in conjunction with a strategic review of organizational priorities, a careful examination of each position in the organization, and the redesign of business processes and procedures, can be leveraged to enhance productivity and create long-term efficiencies and cost savings.
- The results and implications of spans and layers analyses will vary widely by unit within the University—underscoring the importance of these types of analyses as well as the case-by-case interpretation and application of the findings.

Conclusions and Recommendations

Sibson Consulting offered the following conclusions and recommendations to the University of Minnesota following this part of the spans and layers analysis:

“Although there is no definitive number of layers and spans that uniformly relate to higher levels of performance, there is consensus that flatter structures tend to promote greater efficiencies and responsiveness to changes in environmental conditions. In

viewing spans for each organizational layer, our working assumption is that spans of control should be equal to or greater than the number of layers under a manager . . . This principle is consistent with the ideal that flatter, broader structures in organizations are superior in execution to tall, narrow ones. Overall, the functional areas under examination tended to satisfy this requirement . . .

These results suggest that the organizational review that the University has undertaken over the past several months has yielded advantageous results. These advantages are recognized not only in an appropriate number of layers and spans of control, but by the number of people who occupy supervisory positions as well. On average, only 16% of all employees in the areas under review hold management-level positions. Thus, the likely net benefits have been to produce staff functions that are more efficient in terms of decision-making/reaction times and cost.

Our study revealed few areas that require attention. The University is now taking a closer look at the few pockets of management within the staff areas that did not conform to expectations pertaining to layers and spans. These areas collectively involve a handful of managers. In the meantime, our work will expand into other academic and non-academic areas of the University where we once again will explore vertical and horizontal organizational relationships.”

In total across the four units, thirty-two supervisors at various levels have potentially too few direct reports. Sibson’s analysis also uncovered specific offices in which a single supervisor is responsible for as many as thirty-eight direct reports. In all situations, further review and understanding of the work and level of supervision required are necessary before any changes would be recommended. It is important to recognize that opportunities for sustainable change and long-term cost savings come from taking a more strategic and ongoing approach to spans and layers analysis.³ In support of such an approach, we are already undertaking a position-by-position review of the entire University as part of the Job Classification System Redesign currently underway, and are actively re-examining and redesigning our work and many of our core business processes in support of President Kaler’s vision of Operational Excellence and the Enterprise Systems Upgrade Program (ESUP). These efforts are detailed later in this report.

University’s Next Steps

Based on Sibson’s analysis to date, these four central administrative units are well positioned for effective decision making and operational efficiency, but can certainly be further optimized. As we continue to review spans and layers, we will both broaden and deepen our analysis and determine appropriate actions:

- In all areas in which the ratio of spans to layers does not appear to be optimal, the University will further analyze this within the context of other administrative simplification work in progress.
- We will continue the process of conducting a similar spans and layers analysis of other administrative units.

³ See Ron Ashkenas, “More Direct Reports Make Life Easier,” *Harvard Business Review* (September 25, 2012). Available online at blogs.hbr.org/ashkenas/2012/09/more-direct-reports-make-life.html.

- In order to better manage administrative growth, we will carefully review all non-academic positions prior to posting to ensure they are properly classified and fit with the optimal spans and layers structure.
- We are expediting our job family studies and job classification redesign, which will complement and strengthen the spans and layers analyses and help to ensure that employee classifications accurately reflect the work being performed and that we are organized to work and make decisions effectively and efficiently.
- Finally, we are undertaking a comprehensive redesign of our human resources, budget and finance, and student records business processes as part of ESUP, an essential upgrade of our PeopleSoft system detailed later in this report.

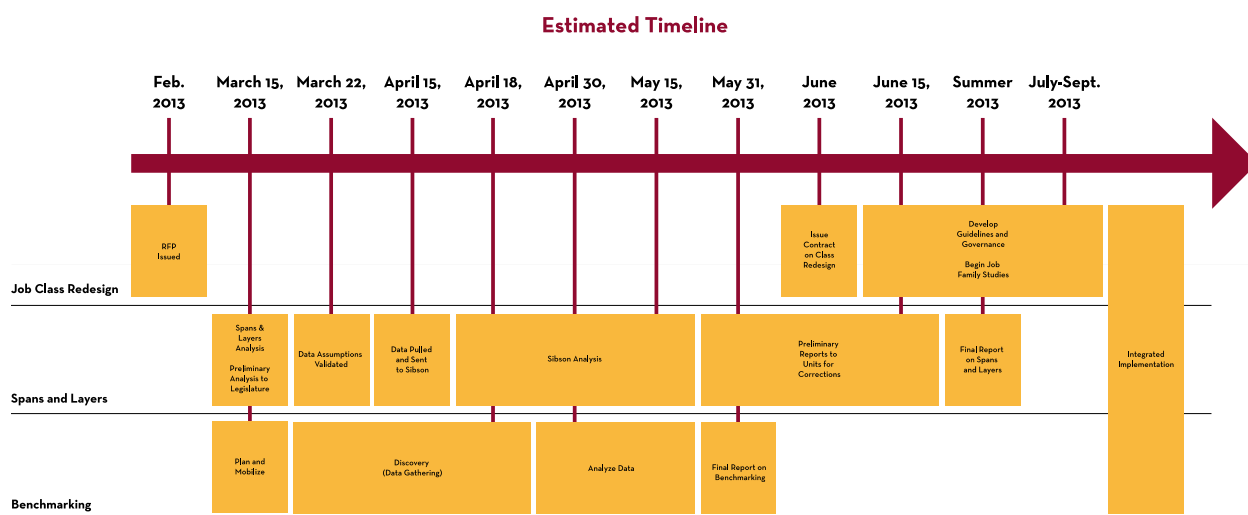


Figure 2.4. Estimated timeline for completion of remaining analyses.

This is not easy work, and typically, it takes large universities embarking on transformation of this magnitude three to five years to complete. For example, the University of California-Berkeley began its work with Bain, including a spans and layers analysis, approximately five years ago and continues to implement the recommendations. We are committed to undertaking it on an expedited time line (see figure 2.4). Our relatively good starting position in this spans and layers analysis is important, but real lasting gains in efficiency and productivity will come from redesigning the University's business processes to fundamentally change the way we work—and this work is underway. As an institution we are motivated to continue on this strategic course, to measure and share our progress, and to correct course as needed.

Administrative Services Benchmarking and Diagnostic Study

In early February, the University of Minnesota invited select national consulting firms with significant experience conducting administrative and business process benchmarking, diagnostics, and redesign to make proposals for reviewing and assessing the University in four critical administrative functions:

- Human resources
- Finance
- Information technology
- Procurement

Based on their national expertise and deep experience doing similar work, the University selected Huron Consulting Group. Huron is a global consulting firm, with eleven North American offices, that specializes in four primary industries: healthcare, education, life sciences, and legal. Huron Consulting Group's education practice is dedicated to serving higher education institutions and brings a large team of professionals with extensive knowledge and direct experience in higher education and the private sector. Huron has been retained by ninety-four of the top one hundred research universities including ten of the Big Ten's twelve schools. As compared to the other vendors, Huron's proposal included the best balance of benchmarking, diagnostics, and resulting recommendations for the benefit of the University. Moreover their experience in higher education surpassed one of the vendors and their interest in helping us find solutions that fit our needs surpassed another.

The goals of the benchmarking analysis are to:

- identify, scale, and prioritize opportunities for improvement
- describe primary factors such as technology, organizational structure, and service delivery models which may currently impact performance in each area
- provide comparative data and leading best practices that may have applicability to the University of Minnesota

To achieve project goals, Huron will complete a thorough analysis of primary data including: interviews with functional area leaders/managers, internal data analysis to determine performance, benchmarking of staffing and select performance measures against peers and industry standards, and review of leading practices in higher education.

Huron and the University will define specific activities, subfunctions, or processes within each of the four functional areas to be included in the study and identify relevant metrics in each of the functional areas to make informative comparisons.

External data will come from two primary sources. Huron will complete benchmarking surveys and leader interviews with ten peer higher education institutions. They will also use established third-party data sources for comparisons to private sector leading practices and performance measures.

The project will take approximately twelve weeks, include four phases, and a report will be completed by May 31, 2013. At completion, the University will make the findings public.

A detailed workplan follows.

Phase 1: Plan and Mobilize (1–2 weeks)	Deliverables
<ul style="list-style-type: none"> • Conduct kickoff meetings to confirm in-scope activities and approach • Conduct kickoff with campus functional area partners • Define specific activity areas/business processes • Review and select metrics • Identify peer/comparison institutions • Refine project plan and charter • Submit initial information request to UMN campuses • Develop project communication and messaging and stakeholder engagement approach 	<ul style="list-style-type: none"> • Information request • Project charter • Survey tool • Benchmark institution list and engagement plan • Communication plan • Risk and issues log
Phase 2: Discover (5–7 weeks)	Deliverables
<ul style="list-style-type: none"> • Deploy custom surveys to peer institutions and monitor completion • Conduct site visits/interviews with University functional area leaders and primary staff (all campuses and all functions) • Engage campus stakeholders to understand perspectives on each functional area • Conduct phone interviews with comparison institutions • Synthesize and level incoming data • Identify initial opportunities 	<ul style="list-style-type: none"> • Report on themes from interviews (internal and external) • Data collection progress reports • Complete data sets • Report on initial opportunities
Phase 3: Analyze (3–5 weeks)	Deliverables
<ul style="list-style-type: none"> • Consider overall impacts of current service delivery model • Assess metrics/factor on its own and in relation to peers/comparisons • Identify most impactful contextual factors for each functional area • Identify opportunities with the greatest potential 	<ul style="list-style-type: none"> • Baseline headcount and/or FTE and cost summaries for each function • Analysis of benchmark results, surveys, and interviews • Recommendations for improvement
Phase 4: Report (1 week)	Deliverables
<ul style="list-style-type: none"> • Conduct meeting with steering committee to review findings • Conduct web conference with functional area leads to incorporate their perspectives • Create executive summary of findings • Communicate back to participating institutions the high-level results of the project • Propose next steps for evaluation or solution design 	<ul style="list-style-type: none"> • Full report detailing process and results • Executive summary report • Roadmap

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Section Three

Institutional Analytics

Institutional Analytics

While “spans and layers” and benchmarking analyses by external agencies are an essential component to providing the data University leaders need to make informed decisions and reduce costs, the University has recently completed important analyses of its costs and structure. At President Kaler’s request, the University has completed two first-of-their-kind studies to assess the full cost of mission activities and define administrative costs at the University. Both analyses provide important data about the organization, where we spend money, and how we prioritize those expenses.

Cost of Mission Analysis

The University of Minnesota Board of Regents and President Eric Kaler share a commitment to using data to drive decision making at the University. To this end, last spring, the University of Minnesota became, to our knowledge, the first public research institution to assign and analyze the fully allocated costs to all of our mission activities. This study, based on FY 2009–10 financial activity and tied to the general ledger, analyzes:

- how much the University spends on the direct cost of instruction, research, public service, auxiliary operations and student aid;
- the allocation of indirect/overhead costs associated with each of those activities; and
- the unique funding sources that pay for each mission activity.

The study includes a second-level analysis outlining how much the University spends to instruct undergraduate, graduate, and professional students. The study also gives management new and better data about costs and revenues that will inform decisions about investing in our mission. Data regarding the cost of instructing students by level and college or campus, in particular, provide important insights into the various factors that drive instructional and support costs.

The study yields several conclusions that have both management and policy implications:

- The importance of understanding both the direct and indirect or support costs of mission activities is crucial. Failure to adequately understand the fully allocated costs of activities can underestimate costs by as much as 30 percent, and distort the variety of revenues supporting mission activities.
- All three of the primary missions (instruction, research, and public service) are funded through a variety of revenues. State support is critical to funding undergraduate instruction, graduate and professional instruction, sponsored and non-sponsored research, and the wide variety of public service activities the University engages in. State appropriation, however, is not the majority or even the primary revenue source for any of these missions. Each mission is supported by several other revenue streams, including sponsored research dollars, endowment earnings, indirect cost recovery resources, clinical income, and, in the case of instruction, tuition.
- The cost to instruct a student varies by student level (undergraduate, graduate, and professional) and by college or campus. (See Figure 3.1) The study allowed the University to probe and better understand what factors drive the cost of instruction at the University. Some illustrative examples include:

- Curricular factors, such as section size, availability of course choice in a major, or the availability of teaching assistants or adjuncts
- Cost and complexity of unique instructional spaces and equipment/materials
- The variable amounts spent on student and career services within colleges and campuses
- Programs that for pedagogical reasons are highly instructor intensive (e.g., music programs, Ph.D. thesis advising)

The study has also created new management information for academic leadership, including comparative information about spending on student services, space, and faculty salaries: as well as the creation of productivity ratios. The University plans on replicating this study for subsequent fiscal years to establish cost trend lines for each college and campus.

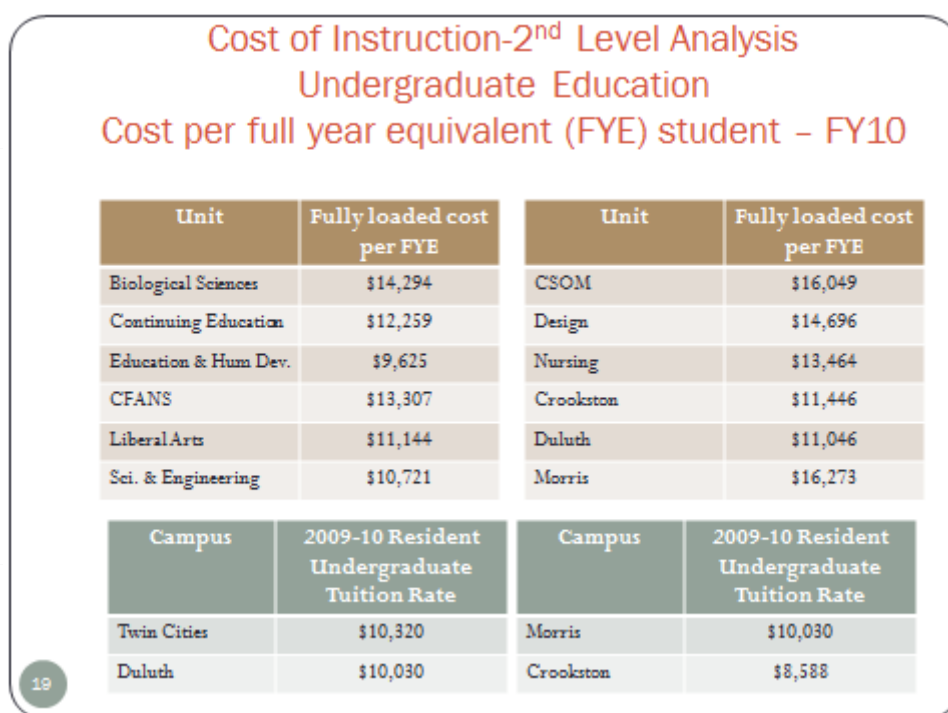


Figure 3.1. Cost of instruction, detailing differences by major and campus.

Administrative Cost Definition and Benchmarking

Building on the cost of mission study described above, in fall 2012 the University completed a groundbreaking administrative cost study. Given the difficulty of finding comparative data on mission and administrative spending, the purpose of the study was to establish spending and cost benchmarks for the University against which it could measure progress over time. The study also provides data on the University's cost structure; identifies gaps in processes, data, and information; and creates a more robust set of data for strategic decisions about investments.

The study reviewed all personnel and non-personnel expenditures at the University and allocated them to one of three categories: direct mission delivery, mission support, or administrative leadership and oversight (see Figure 3.2). This analysis determined that the University's spend is allocated as follows:

- 50 percent on direct mission activities (expenses for those doing the direct instruction, outreach, and research of the institution)
- 32 percent on mission support activities (expenses that support the delivery of mission activities—libraries, advisers, student service professionals, information technologists, etc.)
- 9 percent on administrative leadership and oversight (expenses for the leadership, direction, control, and management of the institution—president, vice presidents, deans)
- 9 percent on student aid in the form of institutional scholarships and grants

President Kaler has repeatedly stated that his goal is to increase operational effectiveness to allow the University to move dollars from the administrative leadership “bucket” towards the spending on direct mission delivery and the mission support activities of the University. The study also highlights the need to focus Operational Excellence in all three areas (mission, mission support, and administrative leadership and oversight), to clarify job classifications and titles to be more descriptive and accurately reflect what specific employees do, and the value of understanding how the University changes over time.

Expense Summary: Cost Benchmarking										
FY 2012										
University of Minnesota - Systemwide										
a	b	c	d	e	d	e	f	g	h	i
1 PERSONNEL	Mission	Mission as % of Total	Student Aid	Student Aid as % of Total	Mission Support & Facilities	MS&F as % of Total	Administrative Oversight	Admin as % of Total	Total	% Total
2 Direct Academic	836,554,298	100%					3,442,550	0%	839,996,843	27%
3 Students	256,379,027	87%			36,948,318	13%	103,242,906	100%	293,327,345	10%
4 Leadership							8,225,484	10%	103,242,906	3%
5 Facilities					75,856,922	90%			84,082,406	3%
6 Support:										
7 Audit/Finance/HR/Info Tech/Legal					151,659,889	79%	39,293,797	21%	190,953,686	6%
8 Clerical Support					97,508,937	96%	3,583,369	4%	101,092,306	3%
9 Coordinators					52,294,866	100%			52,294,866	2%
10 Skilled Generalists					48,625,316	85%	8,300,007	15%	56,925,323	2%
11 Other Support					153,254,524	78%	42,457,166	22%	195,711,690	6%
12 Support Subtotal	0	0%	0	0%	503,343,532	84%	93,634,339	16%	596,977,871	20%
13 Total Personnel	1,092,933,321	57%	0	0%	616,148,773	32%	208,545,279	11%	1,917,627,372	63%
14 NON-PERSONNEL	Mission	Mission as % of Total	Student Aid	MS&F as % of Total	Mission Support & Facilities	MS&F as % of Total	Administrative Oversight	Admin as % of Total	Total	
15 Direct Mission Subcontract/Participant	98,000,347	100%							98,000,347	3%
16 Supply/Service/Misc	214,870,647	55%			131,590,695	34%	44,538,948	11%	391,000,291	13%
17 Equipment/Other Capital Assets	47,581,892	50%			35,175,423	37%	11,905,677	13%	94,662,992	3%
18 Consulting/Prof Services	70,103,147	67%			34,815,696	33%			104,918,843	3%
19 Repair & Maintenance Supply					53,411,510	100%			53,411,510	2%
20 Utilities					89,386,458	100%			89,386,458	3%
21 Rents/Leases					28,113,412	100%			28,113,412	1%
22 Student Aid			282,510,892	100%					282,510,892	9%
23 Total Non-Personnel	430,556,034	38%	282,510,892	25%	372,493,195	33%	56,444,625	5%	1,142,004,747	37%
24 TOTAL EXPENSE	1,523,489,355	50%	282,510,892	9%	988,641,968	32%	264,989,904	9%	3,059,632,119	100%

Figure 3.2: Cost benchmarking for the University of Minnesota

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Section Four

Operational Excellence

Operational Excellence

Operational Excellence is a long-term commitment to work smarter, reduce administrative costs, enhance services, and increase revenues throughout the University. The goals are to:

- mitigate the impact of state budget reductions and keeping tuition increases low by reducing the University's operational costs;
- improve operations and processes, resulting in a more efficient, better run, less redundant organization;
- promote entrepreneurship, intelligent risk-taking, cooperation, and engagement across our campuses and in our interactions with business and community partners; and
- free up dollars from administrative and low-priority activities to be reinvested in the core academic enterprise.

To achieve these goals, Operational Excellence is fundamentally about culture change—in the way we collaborate, identify and solve problems, and move forward as one institution. It's about using our resources—people, money, time, facilities—to the highest possible purpose. Operational Excellence is not an initiative. Rather it is a way of functioning at the University.

What are the University's Barriers and Opportunities?

In a series of listening sessions attended by more than 65 faculty and staff members, the following key themes were identified as central to the University's efforts to achieve Operational Excellence:

- The University is too risk averse and too regulatory, more mired in saying "no" than in finding ways to say "yes."
- The University can do more to unleash entrepreneurialism, by identifying best practices for achieving efficiencies and scaling them up where appropriate.
- The University needs to improve its change management and problem-solving skills, so it is able to alter course and direction when needed. This necessitates understanding needs at the local level.
- Consultation is important, but there are pitfalls to over-consulting, especially as it affects speed of innovation. Moreover, participants felt that the University does not always consult in the right ways.

Achieving long-term Operational Excellence means addressing all of these issues. While solving specific problems is important in the short term, advancing the institution's overall problem-solving skills is essential in moving forward.

Operational Excellence Guiding Principles

The goal of Operational Excellence is to reallocate resources and effort into the University's core teaching, research, and public engagement mission. Projects and initiatives will be prioritized and selected based on their ability to:

- achieve administrative cost reductions and/or productivity improvements;
- encourage enterprise solutions while reducing redundancy and duplication;
- promote entrepreneurialism, seize opportunities, and enhance organizational flexibility and adaptability; and

- recalibrate the University's risk profile to achieve greater efficiencies while enhancing service.

Projects and initiatives will be implemented in a way that:

- manages both the operational and cultural aspects of change;
- adopts and shares best practices across the University, scaling “tests of change” from individual units to campus or organization-wide levels;
- develops core competencies across the organization, encouraging the breakdown of silos;
- adopts sustainable, replicable business models; and
- develops qualitative and quantitative measures of effectiveness.

In the following pages, we describe key Operational Excellence initiatives in detail. More information about Operational Excellence can be found online at <http://excellence.umn.edu>.

Administrative Optimization

Providing the right services at the right level is essential to any well-run organization. Administrative optimization projects assess current structures and redesigns them appropriately. Operating under the assumption that the University is a single enterprise with many different businesses, administrative optimization drives efficiency and excellence throughout the institution's organizational structures. Below are a few key initiatives that define our approach to administrative optimization.

Enterprise Systems Upgrade Program (ESUP)

ESUP is the University's initiative to upgrade our PeopleSoft human resources, student, and financial systems. In conjunction with the necessary technological upgrade, and to remain in compliance with state and federal regulations, the University is re-examining the way we operate within and between each of these essential areas. This is a prime opportunity to examine our daily business processes, to simplify and streamline efforts, and to develop enterprise-wide tools that support a culture of Operational Excellence. Led by a diverse group of internal constituents and an external implementation partner, we are approaching changes in three primary functional areas as described below.

The human resources (HR) project team provides an example of how we have simplified and streamlined efforts. Comprising one hundred people across the system, this group identified 133 obsolete or redundant fields in the system and recommended their elimination or consolidation, resulting in increased employee efficiency. In addition, the HR upgrade will leverage new functionality to eliminate outmoded processes (like filing for time off using a paper form) and create streamlined employee self-service functions (such as applying for employee benefits).

Fifteen years ago, the University proudly unveiled the first student web registration system in the country. **The student upgrade** will replace this system, which is now outdated and costly to maintain, with functionality that is included in the base PeopleSoft product. This change will eliminate numerous system modifications and introduce a new model for ongoing updates and support.

Behind the scenes, **the technology initiative** has identified 165 software systems (to date) that may be impacted by the upgrade. These applications support business processes across the institution, from libraries and housing to parking services. The upgrade will streamline the integration of these support systems, increasing efficiency, accuracy, and reducing maintenance costs.

The Enterprise Systems Upgrade Program embraces Operational Excellence by:

- using available technologies to create a virtual bridge to collaborators across the University's system, engaging participation and sharing at all campuses;
- being proactive and taking full advantage of emerging technologies (e.g., mobile technologies, cloud computing, etc.) for a more cost-effective, efficient, useful, and user-friendly experience;
- simplifying, streamlining, and integrating the University's business processes; and

- developing a set of common tools that can support data-driven decision making throughout the organization.

System Office realignment

Following the appointment of Robert J. Jones (senior vice president for academic administration, University of Minnesota system) as president of the University at Albany, President Kaler charged a task force to review the functions within the Office for Academic Administration and determine their optimal alignment within the University.

The task force was asked to develop recommendations to ensure that the University's organizational structure advances our academic, research, and outreach missions while achieving greater operational and administrative efficiency. Specifically, the task force was asked to make recommendations focused on optimally aligning the functions within the Office for Academic Administration, including reporting lines and the responsibilities of the senior vice president.

The task force developed five key principles to guide its work:

- Maintain strengths of the Office for Academic Administration, particularly system orientation and organization
- Transparency—alignments should be easily understood and logical
- Align responsibility and accountability
- Reduce costs
- Maximize functional, mission, and cultural alignment

The task force recommended eliminating this office and reassigning the functions within it to other University leaders. President Kaler concurred with these findings and requested that implementation of these changes begin immediately.

Cost savings associated with this transition are estimated to be close to \$1.6 million: \$1.1 million of recurring funds and \$500,000 of non-recurring funds. The realized savings will be incorporated into the budget process for FY14 consistent with the President's goal to reallocate the equivalent of 5 percent or \$28 million of state appropriations.

For detailed recommendations, see the full report at http://www1.umn.edu/prod/groups/ur/@pub/@ur/@president/documents/content/ur_content_418528.pdf

University of Minnesota Foundation/Minnesota Medical Foundation merger

On November 14, 2012, in separate meetings of their boards, the University of Minnesota Foundation (UMF) and the Minnesota Medical Foundation (MMF) agreed to pursue a merger, subject to the completion of due diligence and final board approval.

UMF and MMF boards affirmed the belief that a combined foundation would result in one voice for private giving that would leverage mutual interests, reduce donor confusion and make the process of giving to the University easier. From the beginning, President Eric Kaler was strongly supportive of this process from the beginning.

In the early part of 2013, pursuant to Board of Regents direction, President Kaler, General Counsel Rotenberg, and the University's outside counsel reviewed the terms of the merger between UMF and MMF to ensure that it promotes the University's interests and protects the University's property. Based on this review, President Kaler determined that the terms of the proposed merger met these criteria and recommended that the Board of Regents ratify his consent to the specific written terms of the merger. By resolution, the Board of Regents approved the merger on February 8, 2013.

This is a natural and logical progression of the ongoing collaboration by MMF and UMF. The combined foundation will retain the University of Minnesota Foundation name. The MMF Board of Trustees will become an advisory board for the health sciences currently supported by MMF, which includes the Medical School, the School of Public Health and the Masonic Cancer Center.

This merger will improve donor relations and reduce "back office" costs by up to \$1 million annually.

Functional Alignment – Dotted-line reporting

In September 2012, President Kaler wrote senior leaders and administrative leads throughout the organization to announce the implementation of dotted-line reporting relationships between central administration and four functional areas: human resources, IT, budget and finance, and communications.⁴ Citing the imperative of operating as a single enterprise, Kaler called for dotted-line reporting relationships as a method "to align, standardize, and professionalize our core operations." Moreover, dotted-line reporting relationships will help drive down costs by ensuring that planning and investment is a shared activity governed by appropriate institutional checks and balances.

As he wrote, "I believe that these functions have become far too decentralized with too much variation between units. This results in duplication of effort between administrative units, colleges, and campuses; a lack of role clarity; and the inability to effectively standardize work processes, decision making, and procedures to adopt best practices and reduce costs across the enterprise."

Leaders of these functional areas immediately began to work with other administrative units and collegiate and campus leaders to define roles, responsibilities, and accountabilities, and develop service-level agreements for each functional area. Implementation of dotted-line reporting across these four areas is currently ongoing.

⁴ This memo is available online at <http://www1.umn.edu/president/speeches-and-writing/admin-optimization-and-dotted-line-reporting/index.html>.

SIDEBAR

Dotted line reporting in Information Technology

Scott Studham, vice president for IT, has been working with unit IT leads for each college and administrative unit to collaboratively define the dotted line reporting relationship. The purpose of implementing this organizational structuring is to ensure that all members of the University's IT community are focused on institutional priorities, and to provide the vice president for IT visibility into the IT operations of each unit at the University of Minnesota. These changes position us to eliminate non-value adding duplication of effort, create efficiencies in how we work together as a unified IT organization, and enhance our ability to spend college IT dollars on activities that support unique collegiate needs.

Operational Excellence in Information Technology

Overview

The Office of the Vice President for Information Technology oversees all aspects of information technology (IT) at the University of Minnesota's five campuses, regional extension offices, and research and outreach centers, providing guidance to central and collegiate units and managing the system-wide information technology enterprise.

A recently conducted benchmarking analysis (available upon request) by Gartner Research Inc. revealed that IT at the U of M is highly distributed compared to peer universities: 32 percent of the IT budget and 29 percent of IT FTEs are currently located in central IT while the remainder are found in colleges and other administrative units. By comparison, a 2011 Educause Core Data Service Report of more than 800 public and private higher education institutions indicates that 56 percent of IT FTEs across higher education can be found in central IT. The difference in these reporting relationships indicates the level of decentralization at the U of M. While decentralization, in and of itself, is not necessarily bad, the University is looking closely at its IT organizational structure to assess areas for improvement.

Ongoing IT Projects and Initiatives

Server consolidation

In May 2010, a system-wide inventory project found nearly 4,000 servers from 50 different hardware manufacturers located in more than 225 locations across the U of M system—an inefficient and expensive method for managing commodity IT server and data center services. The University embarked on an effort to consolidate and virtualize servers in an effort to operate more efficiently and cost effectively. We have made the following progress to date:

- 50 percent reduction in physical servers
- Increase from 30 percent to 56 percent virtualization achieved
- Approximately forty server rooms have been closed

Ongoing cost savings are approximately \$1.5 million annually. \$1.5 million in one-time cost avoidance has also been achieved due to server room closings and leveraging the central virtualization service.

Help desk consolidation

IT professionals across the U are working together to consolidate more than seventy independently run “help desks” into a single point of contact for technology support needs. These unit-based “help desk” services vary in scope from large call centers in the College of Liberal Arts and at the University of Minnesota Duluth to the voicemail of a small unit's local technician. This effort to increase efficiency and simplify access to tech support furthers President Kaler's call for Operational Excellence. The first stage of the multiyear process consolidates IT staff in non-academic offices into a U-wide technology support service. By opening up a common help desk service that was established in the first stage to the entire University in the second stage of the process, colleges will have an opportunity to either reduce costs or repurpose resources into teaching, learning, and research priorities.

IT governance

In 2012, the University instituted a new IT governance process. This process enables broad-based input into IT priorities, which helps ensure that IT-related work is focused on those technologies and services that support faculty, staff, students, and other University needs. After gathering broad input through multiple channels (including the Faculty Consultative Committee, the Senate Committee for IT, student technology surveys, and others), priorities are synthesized, and a recommendation is sent to the newly formed University Executive Oversight Group, who finalizes the priorities for the year.

University technology standards

The University is working diligently across the system to align technology activities and investments by developing University technology standards. These standards provide methods and organizing principles that align functional business objectives and strategies with a unified technology strategy and execution plan. They also enable two-way alignment, allowing all units and campuses within the University system to work smarter, be more efficient, and save money. Cost savings are achieved by reducing duplicative purchases in similar technologies, reducing overall maintenance and support costs created by supporting non-standard technologies, and keeping technology investments aligned with University business strategies so that dollars are not wasted on unnecessary or duplicative technology.

IT Service Management

The University of Minnesota is aligning its strategy for IT Service Management (ITSM), influenced heavily by the Information Technology Infrastructure Library (ITIL), the most widely adopted approach to IT service management in the world. This framework helps organizations identify, plan, deliver, and support IT services. Increasingly, University IT is using a common tool (ServiceNow) for tracking, escalating, and resolving technology help requests, eliminating the need for redundant tools and enabling alignment of processes for greater efficiency.

Transition to Google Applications

Several years ago the University of Minnesota became the first major research university to tap Google for its ever-evolving suite of applications—email, calendaring, video chat, and more. In 2010, the University became one of the first higher education institutions anywhere to offer the entire suite of apps to faculty and staff—not just students.

Analysis by technology research firm Gartner Inc. estimates the move is valued at more than \$15 million a year. But the value that Google Apps bring to communication and collaboration between users—students, faculty, and staff—is even greater. Qualitative values include:

- The ability to tap into Google's rapid innovation-cycle in a way that was previously unachievable
- Significant productivity gains driven by a leading edge collaboration infrastructure
- World-class collaboration tools that ready students for productive professional careers
- Opportunities to customize collaboration platforms with thousands of third party applications

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- Always up-to-date systems rather than those that are often 3-6 years behind the most current version (which is typical with an on-premise model)
- Achievement of 99.9 to 99.99 percent uptime; and
- Ten minute recovery in case of catastrophic data center failure
- The University of Minnesota and Google have a contractual agreement that ensures the privacy and confidentiality of all of the University's data.

Operational Excellence in Budget and Finance Operations

From centralizing more accounts receivable to closing the University's Bursar Office, budget and finance initiatives create efficiencies, reduce barriers, and decrease duplication of effort in the day-to-day financial administration of the University.

Ongoing Projects

Accounts receivable billings and collections

The University has revenue-generating sales activities emanating from many units across the institution. These activities are usually small in terms of dollars but nevertheless generate vital additional resources. Historically, departments have not had standardized tools and procedures for invoicing customers or collecting cash on accounts receivable.

To address these issues, the University has adopted industry best practices for invoicing and cash collections. We have implemented features of the PeopleSoft enterprise financial software to reengineer accounts receivable processes for a variety of sales and revenue-producing activities. An informal benchmarking of higher education institutions running the same PeopleSoft software shows that we are at the leading edge of adopting this technology, as no other institution is using it to process activity in a similar fashion. The software rollout and business process changes will:

- automate procedures which were previously manual;
- consolidate activities that have previously been duplicated across campus;
- speed up cash depositing processes by using a secure bank lockbox; and
- reduce the possibility of lost or stolen cash.

Since rollout began, the following metrics illustrate the improvements the University has experienced:

- For customer payments directed to the lockbox, 85 to 90 percent automation of payment application processes has been achieved using the functionality in the PeopleSoft system.
- Over the last two years, balances outstanding for 91 to 120 days have declined by \$317,000 (85 percent), and balances outstanding longer than 120 days have declined by \$233,000 (51 percent). This assists departments and the University with cash flows and reduces the risk of bad-debt write-off.
- For calendar year 2012, more than 39,000 invoices with cash activity in excess of \$769 million were handled using these new processes.
- During 2013, the Veterinary Medical Center's accounts receivable activities will be converted to the new system, adding approximately 65,000 invoicing transactions that were previously processed by local units.

Equipment capitalization

The University of Minnesota, like many organizations, is required to capitalize equipment purchases that meet the criteria defining a "capital asset." Under regulations that apply to institutions receiving federal funds, the University is also required to conduct a wall-to-wall inventory of all capital assets every two years. Due to our size,

this entails thousands of assets and thousands of hours of work by hundreds of staff members across the institution. The current threshold for capitalizing assets is \$2,500, and will be raised to \$5,000 effective July 1, 2013.

Figure 4.1 summarizes the estimated reductions in administrative workload and the dollars that will be saved after this change has been made:

	@ \$2,500 Threshold (Current)	@ \$5,000 Threshold (New)	Reduction
Total equipment—dollar value	\$ 659,527,000	\$583,406,000	\$ 76,121,000 (12 percent)
Total equipment—# of items (rounded)	69,000	48,000	21,000 (31 percent)
Estimated annual savings			
a) Labor hours			8,600 Hrs
b) Labor dollars			\$300,000

Figure 4.1. Reductions in workload and dollars saved by raising the capitalization threshold to \$5,000.

The University has received authorization from the federal government to make this change. Implementation plans have been made, and changes in systems, policies, and procedures are being developed. The change will occur on July 1, 2013, with a phased rollout through the end of calendar year 2013.

Bursar closure

The Bursar Office was historically responsible for providing financial services (check cashing, tuition payment receipt, etc.) to the University community. The decision to close it is based on President Kaler's directive to leverage university resources, to reduce administrative costs, and to take advantage of payment technologies. With the closing of the Bursar Office, the University is implementing a system-wide student lockbox system for student payments that will replace the current practice. Student payments currently mailed to the bursar will be sent directly to the bank for processing. This change in procedure will decrease administrative costs inherent in the current manual process and speed up the check to cash conversion cycle, resulting in increased efficiency of the University cash management and investment activities.

With the implementation of a new financial system in 2008–09, a concerted effort was made to increase efficiency in the receipt of funds via electronic payment and lockbox processing. Today, all of our sponsored activity is processed in this manner, eliminating the need to rely on the bursar as an intermediary. The non-sponsored activity has been steadily increasing from \$864.5 million deposited via electronic or lockbox methods in 2008–09 to \$1.525 billion in 2011–12. This trend is expected to continue as more departments are integrated into the non-sponsored billing function in the financial system.

Savings associated with the closure of the Bursar Office exceed \$775,000 annually.

Operational Excellence in Procurement

Overview

Purchasing Services performs procurement functions at the University and manages an external spend of \$1.18 billion. They are responsible for purchasing policies and processes covering spend activities for all campus locations and all colleges and business units.

The mission of Purchasing Services is to provide management oversight and facilitation of all University of Minnesota purchasing processes to insure integrity, economy, efficiency, and accountability; and to provide sourcing, bidding, and troubleshooting assistance to University of Minnesota colleges and departments.

Current State

Purchasing Services has a focus in two areas: individual transactions that have a value greater than \$50,000, and the creation and management of University-wide contracts for commonly used supplies, equipment, and services. Purchasing Services responsibilities also cover travel and procurement card management. Transactional activity against these contracts and for other requirements less than \$50,000 is delegated to colleges and business units. The central purchasing staff of sixteen people, in addition to the duties noted above, provides overall category management for all purchases.

Analytics

Figure 4.2 shows our overall external supplier spend for FY 2012.

[illegible]

Figure 4.2. University of Minnesota supplier expenditures for FY 2012.

Action Steps

Strategic Sourcing

The University contracted Huron Consulting Group (reports available upon request) twice, with the most recent contract concluded in January of 2011. Huron benchmarked the University's procurement practices against leading practices in a number of procurement process areas: demand management, spend concentration, pricing and incentives, shipping (as applicable), and procurement process.

Based on the study, Huron made recommendations that would improve the University's procurement performance in ten commodity categories. The University has adopted these recommendations and has expanded the strategic sourcing methodology and process to all other commodity areas. The results to date have generated annual recurring savings of \$7.6 million and cumulative savings since the inception of the program of \$16.8 million.

Purchasing Services has made technology upgrades in two other major areas. Our M-Bid sourcing tool manages all sourcing events and responses electronically and provides direct comparative data between all respondents. Our Zycus spend analysis tool enables us to view the University's external spend at a detail level and provides insights as to commodity spend over all suppliers and internal users. This tool consolidates spend over all types of spend transactions.

Supply chain management (electronic procurement and logistics)

In 2012 the University engaged Greybeard Advisors to assess and benchmark the University's supply chain practices, including procurement technology and logistics (report available upon request). Greybeard benchmarked the University against eight comparable research institutions: Ohio State, University of Wisconsin-Madison, Purdue, Michigan State, University of Florida, University of Illinois, University of Texas-Austin, and Penn State.

Based on the study, Greybeard made recommendations regarding Minnesota's operations and services relative to roles and responsibilities, use of procurement technology, optimizing central logistics, and optimizing materials management. The University has adopted most of the recommendations and is in the process of modernizing its procurement technology, launching a new best-of-class online shopping service, U Market, in summer 2013; consolidating shipping and delivery on the Twin Cities campus to maximize logistics efficiencies and reduce campus congestion; and developing long-term plans to consolidate materials storerooms under a single materials management team.

When implemented, these recommendations will consolidate purchasing and support strategic sourcing initiatives. They will also improve safety on campus, by reducing the number of on campus deliveries, and generate operational efficiencies.

Operational Excellence in Human Resources

Overview

In the fall of 2011, The Office of Human Resources (OHR) initiated a strategic planning process to meet the challenge of Operational Excellence. OHR reviewed its systems, policies, and practices and found them in need of updating to meet the current and future workforce needs of a major public institution. Universities across the country were facing a similar realization. HR systems had been built decades ago and modified little by little without stopping to rethink the overall strategic direction.

OHR brought together a broad stakeholder group in 2011 to facilitate a comprehensive, collaborative, and inclusive strategic planning process. As a result, OHR identified four strategic imperatives:

- To define roles and responsibilities of OHR and other units
- To simplify policies, processes, and practices
- To empower managers and employees with data for better decision making
- To deliver on core operational functions

OHR is currently implementing this strategic plan. A major first step was defining the roles of central HR and the HR functions in the units and colleges to enable OHR to drive more strategic thinking and alignment throughout the organization (see the “Employee Relations” section below).

Since the strategic plan was created, many HR processes and systems have been updated, and more are currently under development. At the heart of the OHR system improvements is the Enterprise Systems Upgrade Program (ESUP), which will be not only a significant technological upgrade, but also facilitate the redesign of numerous HR business processes, give the University improved data collection and reporting capabilities to inform business decisions, and empower managers to use data to inform decision making.

All the changes moving forward are designed to create the diverse workplace of the future where people are engaged, connected, thriving, and achieving. Reducing costs and improving efficiencies are core drivers for all initiatives. When the strategic plan is fully implemented, HR systems, policies, and practices will be integrated across the University and aligned with Operational Excellence goals and University business strategy.

Figure 4.3 depicts the work outlined in OHR’s strategic plan, followed by a brief summary of progress to date.

How HR Impacts Organizational Effectiveness and Efficiency



Figure 4.3. Human Resources strategic planning elements.

Organizational Structure

Achieving an efficient organizational structure is a top University priority. To that end, the University, in collaboration with outside consultants, is reviewing organizational spans and layers and redesigning its job classification system.

Spans and Layers analysis

The spans and layers analysis, initiated in January 2013 utilizing Sibson Consulting, was designed to look at organizational structure in four central administrative areas: Office of Human Resources, Office of Information Technology, Office of Budget and Finance, and Purchasing Services. (See Section 2: Spans and Layers Analysis).

Next steps include a closer examination of these results in conjunction with the job classification redesign and other initiatives outlined below.

Job Classification System redesign

The University's job classification system, which categorizes positions by job code and then groups related jobs into job families such as IT or Communications, was developed decades ago with the number of job codes growing over the years, creating an unwieldy and inefficient system. During that same time, new jobs were rapidly evolving in the marketplace, and many employees were being assigned job codes that did not accurately reflect the work being done.

To date, the University has conducted four job family studies. With the support of an outside consultant, the University will conduct the remaining fourteen job family studies over the course of the next two years and map the job codes to the redesigned classification system. When completed, the University will have fewer job classifications, and those classifications will accurately reflect the work being performed. Managers and employees will have more transparent career paths, and the new classifications will be easier to administer. This will also ensure that jobs and their corresponding salaries are comparable with the marketplace. A job classification system that more accurately reflects what employees do informs and facilitates better management. It makes it easy for managers to determine how much is spent on personnel for a given function. This kind of analytical information provides a foundation for planning the strategic development of the workforce to match institutional priorities.

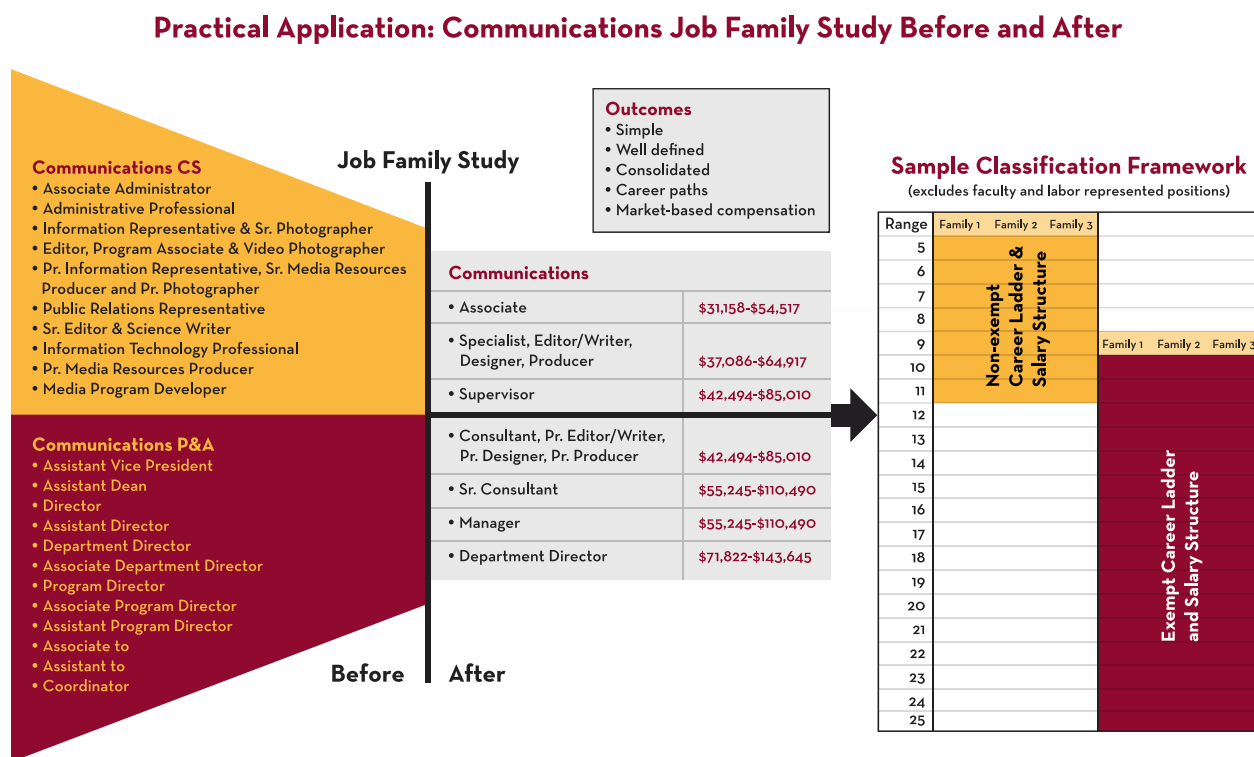


Figure 4.4. Job family study example.

Between now and December 2014, the University of Minnesota system is upgrading its essential human resources, student service, and financial systems, and re-examining related business processes. The upgrade will ensure full integration, improve the user experience, reduce manual tasks, and enhance operational efficiency and effectiveness. The HR component of the program, called the HRMS Project, involves an upgrade of the PeopleSoft HR system to the latest version (9.2), and will result in more accurate data and simplified business processes, and will better facilitate work across business units. This is the first comprehensive restructuring of related business processes since the now antiquated system was implemented in 1998. When the upgrade is complete, leaders and managers will have more comprehensive data and analytics at their fingertips to support the hiring and retention of quality faculty and staff. The system will also be able to provide more robust data to better inform management decisions and reduce costs.

Portal

The new University-wide portal will increase employee efficiency by delivering customized content relevant to the individual's information and service needs. Benefits of the portal include:

- Timely, relevant, and accurate information based on the individual's role
- Easy-to-use and accessible system interfaces
- Access to multiple University websites and systems
- A single "front door" that supports the University's teaching, research, and outreach missions, and which is easier and more cost effective to maintain than existing portals.

Compensation

The Office of Human Resources is working with senior management to develop and implement comprehensive compensation philosophy, principles, and tools that will guide compensation decisions for all employee groups and individuals at all levels of the institution. This will also ensure that jobs and their corresponding salaries are comparable in the marketplace so salaries are objectively market based, and not subjectively determined. Once implemented, the redesigned compensation system will better inform the budget process and better align with the University's strategic direction.

Payroll

The University conducted a payroll audit in 2012 to review the operational function of its payroll system. The audit identified system improvements, which are currently being implemented, to ensure the system produces timely and accurate compensation payments to employees, and timely and accurate tax withholding and reporting to federal agencies. The changes have resulted in improved system integrity and enhanced controls, which reduce the probability of errors, save unnecessary costs, and improve efficiencies.

Recruiting/Hiring

The quality and diversity of the University's workforce has a direct impact on the achievement of the University's mission. For the past twelve years, the University's workforce growth has remained relatively flat with only 3 percent growth, but given the scale of the University, that

still means a significant amount of employment activity. In 2012, the University had 3,513 open positions that generated 60,000 applicant activities resulting in 3,202 hires. These were primarily individuals hired to replace departed or reassigned staff; not new positions. Given the global economy, higher education is now experiencing greater competition for top talent with increased expectations for efficiency, productivity, and accountability. The University of Minnesota is currently consolidating its job center and realigning its recruitment and hiring practices to:

- create a strategic talent acquisition system that increases the diversity and quality of hires;
- promotes the University as an employer of choice;
- incorporates best practices in recruiting and hiring; and
- achieves Operational Excellence by better leveraging technology, such as using social media instead of placing expensive ads; and using Skype or Google Hangouts for interviews to reduce travel expenses.

Roadmap for Job Seekers at the University of Minnesota

Start

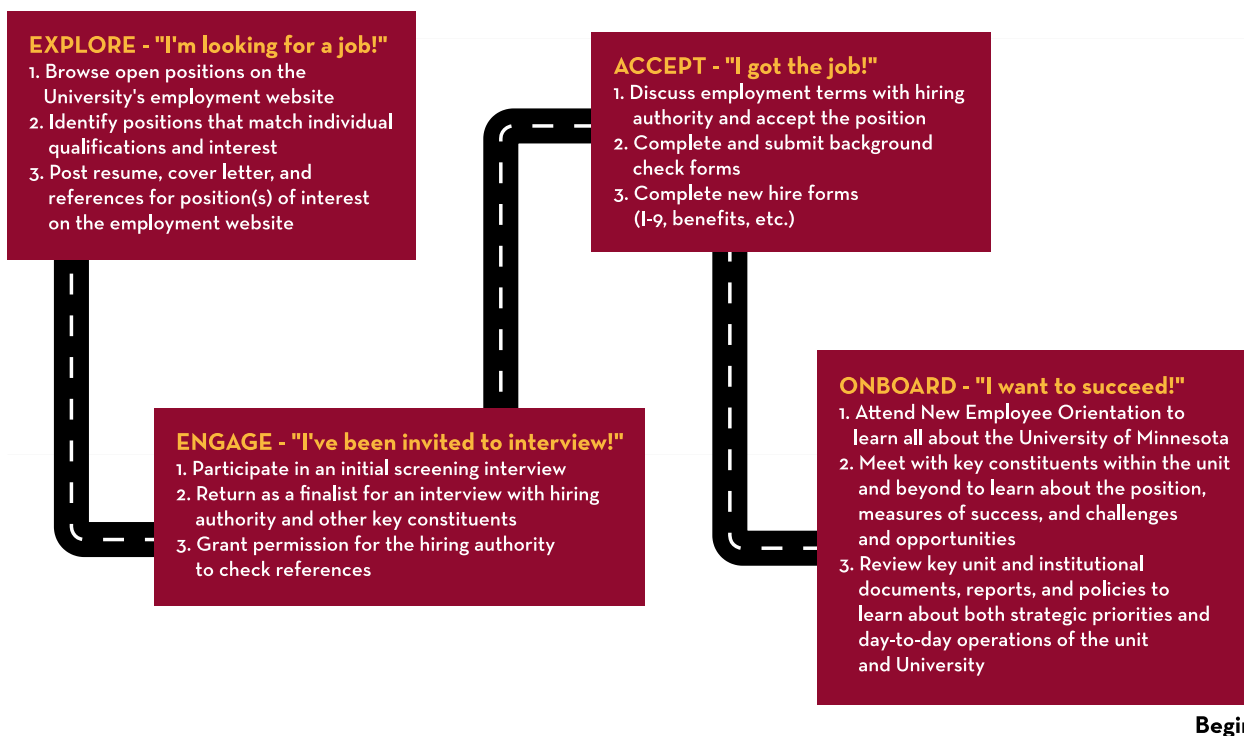


Figure 4.5. Roadmap for job seekers.

Employee Benefits

Health and retirement

The University offers a well-managed, comprehensive benefits package, including self-insured medical and dental plan options, short-term disability, long-term disability, fixed and optional retirement plans, and flexible spending accounts for health and child care expenses. During the period from 2006 to 2012, the University has realized significant plan savings by making smart business decisions, such as moving to a sole medical administrator, changing pharmacy benefit managers, encouraging the use of generic drugs over the use of brands, and mobilizing a strong

wellness initiative. These efforts and others outlined in the table below have saved the University more than \$128 million.

2006-2012 University Health Plan Savings

	Year(s) Implemented	Savings through 2012
Vendor Performance Guarantees Development and Monitoring	2006 - 2012	\$687,554
Wellness Program Savings	2006 - 2012	\$2,243,243
Generic Drug Savings (encouraging use of generics over brands) * Accomplished with benefit design structure, proactive plan management, and market forces (to a lesser extent).	2006 - 2012	\$97,060,000
Vendor Negotiated Items * Majority of savings from vendor annual renewal negotiations	2006 - 2012	\$4,800,000
Vendor Audits	2010	\$196,000
Rx, Office Visit, ER Copays Increased	2010	\$5,370,000
Changed Pharmacy Benefit Managers	2011	\$1,933,332
Dependent Eligibility Audit	2012	\$995,000
Moved to Sole Medical Administrator	2012	\$1,830,380
University/Provider Pricing Negotiations	2012	\$969,620
Medical and Dental Premium Contribution Changes * Family medical coverage tiers now pay 19.5% of total premium cost, a premium increase of 34.6% for most families. * Family dental coverage tiers now pay 48% of total premium cost.	2012	\$11,170,000
Copay and deductible increases	2012	\$1,500,000

Figure 4.6. 2006-2012 University health plan savings.

Given the Affordable Care Act, the University is also reviewing policies, plan designs, and premium structures to ensure compliance with federal and state health care reform regulations, while at the same time striving to continue to control costs and offer a competitive benefits package to attract and retain a high-quality workforce.

Wellness

The University offers a comprehensive Wellness Program with a variety of wellness-related offerings, such as fitness, weight loss, and medical condition management. In addition, the program includes financial incentives to UPlan members to improve their personal health habits. Midway through its eighth year of operation, the wellness program has solid acceptance by faculty and staff and has demonstrated healthcare cost savings for participants and for the UPlan Medical Program:

- The program returns approximately \$1.63 for every dollar invested, which equates to a net savings of \$10,473,662.
- Aggregate data shows health risks (factors which signal the potential for disease) have decreased 11.6 percent for UPlan members who have been active in the Wellness Program.

- Weight management participants have lost an average of 9.8 pounds per fourteen-week session of meetings or eleven-week session of classes. More than 15,200 pounds were lost among UPlan members in 2010.
- The amount spent on in-hospital care for UPlan members who participated in the Wellness Program from 2006 to 2010 was reduced by 33 percent when compared to the cost of medical claims paid for employees and dependents who did not partake in wellness activities.

In the coming year, the University will focus its efforts on engaging additional employees in program offerings, especially programs that help employees manage their medical conditions, which yields the greatest health impact for employees and cost savings for the UPlan.

Employee Relations

When President Kaler implemented a dotted-line reporting relationship between the vice president of human resources and HR leads on campuses, in colleges, and in units, OHR created a plan to:

- clarify and communicate roles and accountabilities;
- strengthen and support a competent, capable, and effective HR community; and
- increase focus on Operational Excellence for the HR community, as a whole.

In the newly introduced dotted-line model, the reporting structure is likened to a net that provides a clear linkage of unit human resources offices to OHR. The lines represent the responsibility to enforce and comply with system human resource policies and procedures, and the need for controls to manage risk. Equally important, the lines also represent the strategic support OHR provides to its customers.

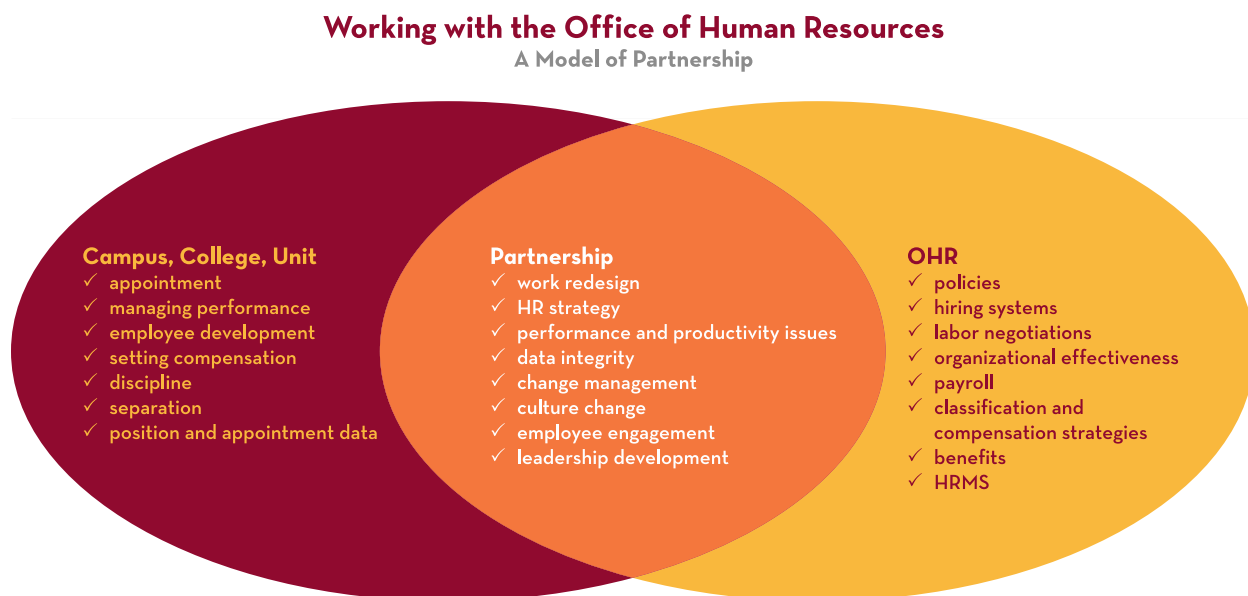


Figure 4.7. Working with the office of Human Resources.

OHR is undergoing a transformation to better align its systems, policies, and practices with the University's Operational Excellence goals and strategic priorities to create better integration across the HR function. In the end, OHR aims to create the diverse workplace of the future where people are engaged, connected, thriving and achieving. In the process, it is also becoming an industry thought leader. (See Figure 4.8)

University of Minnesota Demonstrates HR Thought Leadership

The Hackett Group (NASDAQ: HCKT), a global consulting firm that advises business on operations improvements and leads benchmarking and HR transformation, in January outlined contemporary HR strategies leading to operational excellence. Through this transformation and based on these best practices, the University of Minnesota is an industry leader.

Best Practice	University Proof Points
1. Use a systematic, integrated approach to talent management; create strong, strategic working relationships with business	<ul style="list-style-type: none"> • Job family studies • Job classification redesign • Dotted-line reporting between colleges, units and campus HR leads and central Office of Human Resources • Redesigned HR consulting model, improving strategic integration in a decentralized University • Upgraded PeopleSoft system
2. Increase use of self-service; reduce complexity	<ul style="list-style-type: none"> • One consolidated HR call center, 4-UOHR • One consolidated online training system, ULearn • Improved payroll system based on audit findings • Policy review and simplification • Upgraded PeopleSoft system
3. Flatten organizational structure; have fewer job grades	<ul style="list-style-type: none"> • Spans and layers analysis • Job classification redesign
4. Recognize the link between employee engagement and performance	<ul style="list-style-type: none"> • Launching first-ever employee engagement strategy • Retooling all-employee survey to measure engagement and form basis for actionable plans for improvement

Source: Reuters, www.reuters.com, January 31, 2013

Figure 4.8. Thought leadership in human resources at the University of Minnesota.

Operational Excellence: Additional Achievements

Physical Environment and Service Culture

Overview

The University's physical environment and support services exist to advance the University's teaching, research, and public engagement mission. Extending across five campuses and nineteen research and outreach centers, the University is home to more than 850 buildings covering over 29 million gross square feet. Each day, well over 100,000 faculty, staff, students, and visitors use University facilities across the state.

The University's physical assets are unique and complex. Our facilities range from biological and chemical laboratories, biosafety containment facilities, medical clinics, barns, magnetic resonance facilities, residence halls, and large public venues. In addition to the diversity of uses, the facilities are some of the most historic in the state. For example, on the Twin Cities Campus, twenty buildings were built more than one hundred years ago and another fifty were built more than seventy years ago.

Current State

Striving for stewardship, service, and management excellence, support units aspire to make the University as well known for its service and business innovation as it is for its high-quality research, education, and outreach. In order to manage these physical assets and strengthen its support services, the University has become much more data-driven.

For example, the University continues to use multiple strategies to address its ongoing facilities need. The University analyzes Facilities Condition Assessment (FCA) information to target individual system improvements that mitigate risks and maximize utilization of current space, which minimizes the need for new space. The University uses the FCA to triage existing buildings into those that need long-term investments, those that need short-term investments, and those where no investment is required, in alignment with academic priorities. The data are also used to help determine whether to decommission or demolish buildings that do not represent a good long-term investment, as well as to construct new facilities where existing space does not meet program needs.

Analytics: The Facilities Condition Needs Index

The Facilities Condition Needs Index (FCNI) is a ratio of the cost to maintain reliable operations over the next ten years to the cost of replacing all facilities. The index is used to monitor the condition of buildings; a small index value indicates better conditions than does a large index value.

Campus	Total GSF ¹	% Assessed GSF ²	Estimated Replacement Value	Projected 10-Year Needs	10 Year Needs/Replacement Value = (FCNI)
Twin Cities	22,587,319	95%	\$6,733,417,357	\$2,411,618,445	0.36
Duluth	3,263,023	65%	\$648,822,891	\$191,125,691	0.29
Morris	962,295	95%	\$244,501,371	\$92,702,317	0.38
Crookston	630,241	70%	\$91,899,153	\$32,520,851	0.35
Grand Totals	27,442,878	92%	\$7,718,640,772	\$2,727,967,304	0.35

¹ Excludes 1.9 Million GSF for Rochester Campus, Field Stations and Research & Outreach Centers. Does not include parking ramp decks.

² Includes formally inspected space and new/remodeled space < 5 years old. Also includes GSF for parking ramp decks.

Figure 4.9. FCNI for the University of Minnesota.

University's Action Steps

Operating, maintaining, renewing and protecting physical assets is one of the major cost drivers for the University. As a result, the University has focused considerable effort on reducing building operating costs, optimizing space use, strategically targeting capital investments, and, where possible, decommissioning space.

Space utilization

Since the start of the Space Utilization Initiative, more than 320,00 gross square feet of space have been decommissioned, reducing annual operating costs by over \$1,480,000. There is currently work underway to extend the decommissioning opportunity list so as to further reduce the inventory of expensive, underutilized, inflexible or poor quality buildings. The University's current Six-Year Capital Plan Six Year shows the 2012–2018 legislative capital requests investing more than 80 percent of funds in renewal, replacement, or reuse projects.

The University's Alternative Workplace project has been branded as Work+ and is currently in pilot phase. Work+ is a way for the University to provide people with the flexibility, spaces, technology, and training they need to be more productive and use less space when they are on campus.

The University continues to focus on making the cost of space more apparent to all space users and creating incentive plans to help drive units to improve space utilization.

Energy conservation and energy efficiency

The technical complexity of University facilities has a significant impact on energy use. Recognizing this as a major cost driver, the University has made energy conservation a focus of its cost-cutting measures. In 2010, the University launched It All Adds Up, a system-wide conservation and sustainability effort, by setting a 5 percent energy reduction goal. That goal was reached three months early. An additional 5 percent was eliminated by June 2011, bringing the total amount saved in the program's first two years to more than \$4.6 million annually, with 50,000 fewer tons of CO₂ released into the atmosphere.

Much of the goal was met through building re-commissioning and energy efficiency projects. For example, re-commissioning Wilson Library saved the University more than \$125,000 in annual operating costs. Another example is the University's re-lamping program in all on-campus parking facilities. Once fully implemented, the installation of energy efficient lighting is anticipated to save approximately \$600,000 annually.

In addition, energy conservation at the individual and unit level contributed to achieving this goal. More than 14,000 individual members of the University community and 400 units pledged to take actions to reduce energy consumption.

Combined Heat and Power

In 2012, the legislature allocated \$10 million toward the University's planned development of a Combined Heat and Power (CHP) plant on the Twin Cities campus. In February 2013, the Board of Regents approved the additional funds necessary to complete the project. Fired primarily by natural gas, a turbine generates electricity while also producing heat that will be used to create steam for University buildings. The same units of fuel (measured in BTUs) benefit the University twice.

The project corresponds with the University's principles for finding energy solutions that are reliable, sustainable, and cost effective. The Southeast Steam plant is the campus' sole steam production facility, so building CHP will provide redundant capacity in case something should happen to either facility. Additionally, the CHP will be a dual fuel plant, meaning more than one energy source can be used to fire the turbine. This gives the University flexibility in case one fuel supply is interrupted. From a sustainability perspective, implementing the CHP drops the carbon footprint of the Twin Cities campus by 15 percent.

Compared to replacing aging boilers with a traditional boiler, CHP generates \$5 million in annual savings and \$176 million of lifecycle savings over a thirty-year horizon. In addition, CHP will partially shield the University from increased electricity rates as we generate our own electricity.

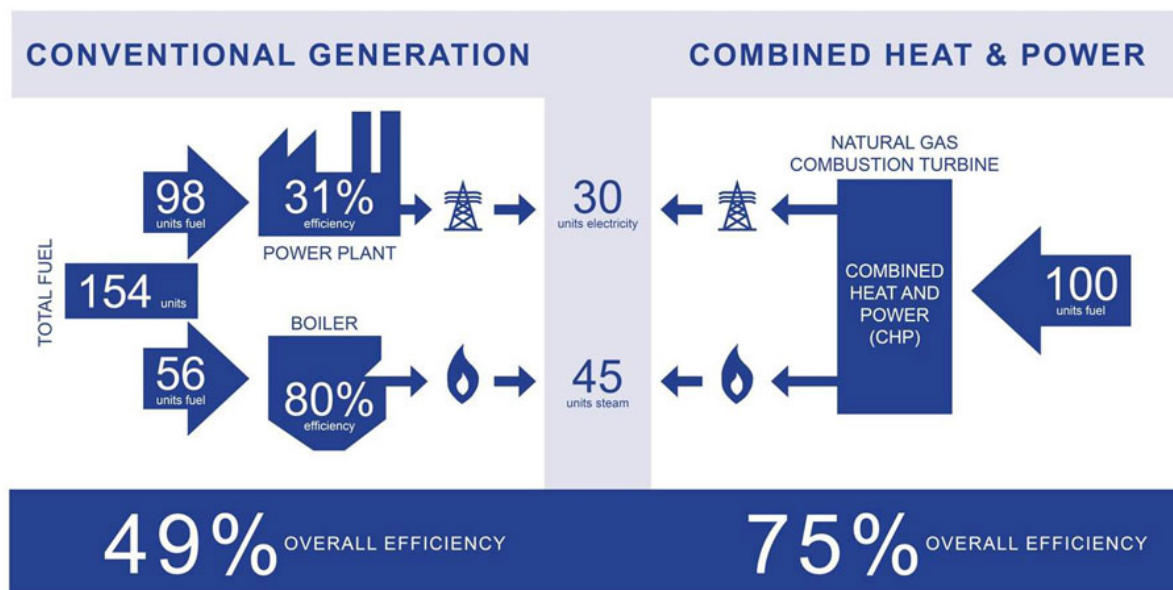


Figure 4.11. Benefits of combined heat and power.

Team cleaning

In 2011, the University implemented a new custodial program on the Twin Cities campus featuring team cleaning. Rather than a single custodian performing all tasks within a given area, team members carry out specialized tasks. These efficiencies, combined with increased use of riding equipment and new cleaning technology, has allowed Facilities Management to clean the same amount of space with fewer employees—saving the University \$3.1 million annually.

Contracts with external vendors

The University regularly reviews existing contracts with external vendors to determine if savings can be achieved and conducts internal business reviews to determine if external vendors can provide the service more efficiently and effectively. Examples of this include the following:

University Village lease

In 2012, the University renegotiated its lease for 419 beds at University Village saving students approximately \$238,000 annually. The primary reasons for the savings include a revised calculation to determine the annual room rental rate increase; a billing process change for phone/internet service; and real estate tax savings attributed to the residential portion of University Village.

Fire alarm testing

In 2011, the University began contracting out its fire alarm testing and service program, offering significant improvements to the scope, quality, accountability and cost of servicing the University's critical fire alarm systems. Services were elevated to industry standards and fully meet regulatory compliance requirements.

The work is performed by technicians who have the highest level of specialized technical knowledge and expertise. As a result, the University achieved an annual savings of \$578,000.

Elevator maintenance

In 2012, the University implemented changes to its elevator services. Four different contractors, plus the University elevator shop had been maintaining and repairing elevators. By eliminating the internal service and consolidating external contracts into one, the University will save \$240,000 annually.

Automated parking payment system

Over the past two years, the University has been transitioning to an automated parking payment system. By eliminating parking attendants in lots and ramps across campus, the University is projected to save \$1.35 million annually in personnel savings and generate an additional \$180,000 annually in increased revenue.

Lowering textbook costs

The University is employing multiple strategies to lower the cost of textbooks for students, including:

- Lower markups—the University is operating on the lowest markup of any college store in the country.
- Implementation of multiple methods for the purchase of textbooks and course materials, such as:
 - Increased availability of used books saving students \$660,000 in FY12
 - Expansion of a textbook rental program saving students \$1.485M in FY12
 - Increased availability of e-books saving students \$80,000 in FY12
 - The Bookstores' textbook rental sales are reported as the highest of any college bookstore in the country.

Management Staff Reductions

Recognizing the need to continually review management costs in the support units, University Dining Services (UDS) reduced management staff by 4.0 FTE beginning in FY13, which resulted in an estimated annual savings of \$280,000, and allowed UDS to minimize student board rate/price increases. In addition, Facilities Management reduced administrative expenses by 10 percent by consolidating from five districts to three.

Centers and Institutes Review

The work of centers and institutes at the University of Minnesota spans a huge diversity of activities. They are generally established to provide a vehicle for interdisciplinary research, teaching, and engagement—used to coordinate the efforts of many individual faculty around a common purpose, or to draw diverse faculty together from several disciplines to address a problem in an interdisciplinary way. They also are formed to recognize areas of excellence.

In March 2012, President Kaler charged deans on the Twin Cities campus and chancellors at each system-wide campus to review academic centers and institutes in their respective areas. The goal was to assess the value of centers and institutes to ensure they were meeting current academic, collegiate and institutional needs.

The review was also undertaken as part of a broad commitment to establish baseline assessments of University operations. As President Kaler has stated, measurement is essential to improving the University. As the charge memo to deans and chancellors stated, “it simply makes sense and is a best management practice to periodically review all we do and ensure it continues to meet our highest strategic goals and priorities.”

Specifically, academic leaders were asked to examine:

- the extent to which a center or institute contributes to a college’s, or the University’s, mission and strategies;
- the current relevance of the work of each center or institute; and
- the types and amounts of revenues used to support centers or institutes, as well as the leveraging capacity of those revenues.

In total, the deans and chancellors reviewed 241 centers and institutes. Of these, they reported that 73 percent (175) were viable and relevant, 9 percent (21) required further review, and 9 percent (23) were either already closed or scheduled to be closed. The final 9 percent (22) should not have been included on the list as “centers” or “institutes.” These 22 units are primarily federally-funded research outreach centers, internal service organizations, research infrastructure, professional development or training units, or academic departments.

These preliminary findings provide a baseline analysis of the University’s centers and institutes. President Kaler and University leaders now have a better understanding of the relevance, vitality, scope and breadth of centers and institutes across the institution.

While thorough, the review also provides a framework for further analysis, which is Phase Two of the centers and institutes review. In particular, the Operational Excellence team identified three priority areas for additional review:

- The 25 centers and institutes that utilize the largest dollar amounts of Operation and Maintenance (tuition plus state) funding
- Assessing opportunities for merging administrative support structures of similarly situated centers and institutes and/or developing shared services for centers and institutes, where appropriate

- Examining the possibility of combining centers and institutes with similar academic foci or missions, where appropriate.

Finally, this process confirmed that academic centers and institutes across the University currently undergo active review and refocusing to meet current student, academic and resource needs. Phase Two of the centers and institutes review is intended to complement, not supplant, existing processes.

Risk Recalibration

In December 2011, President Kaler charged his senior leadership team to analyze and reset policies and processes used to manage risk in all aspects of University operations. Risk recalibration, the term for this activity, is an essential component of Operational Excellence. Its goal is straightforward: Manage risk responsibly without being overly onerous. Piloted first in the Office of the Vice President for Research, risk recalibration involves six steps:

- Identify risks
- Explore change
- Plan change
- Approve change
- Implement change
- Evaluate change

Preliminary findings

In late March 2012, senior leaders submitted reports identifying and assessing risk in their areas. In total, they pinpointed more than 220 policies and processes for “recalibration.” Next, a staff team representing units across administration reviewed and consolidated these with other priority projects identified earlier by senior leadership into eight “areas of opportunity”:

- Administrative optimization
- Budget and finance
- Communications
- Compliance and policy
- Human resources
- Information technology
- Physical environment and service culture
- Research

The staff team presented these recommendations to the president and his senior leadership team, who, in turn, are prioritizing them for future implementation. These changes will be ongoing.

Among other initiatives already cited in this report, the University has implemented the following sample projects to date:

- External sales agreements are being simplified from eight pages down to one.
- The University is consolidating more accounts receivable activity to use central capacity and reduce the burden on local units.
- The Office of Budget and Finance is developing a tool to allow units to pay vendors electronically rather than via a processed paper check.

- The University launched Minnesota Innovation Partnerships (MN-IP) to eliminate protracted negotiations over intellectual property rights resulting from industry-funded research. Companies that want to sponsor research can now prepay a fee and receive an exclusive worldwide license with royalties taking effect in cases of significant commercial success. This significantly streamlines University work with business and, ideally, will fuel more industry-funded research.
- Cell phone allotments, augmentations, and expense reimbursements have been eliminated, reducing tracking and reporting burdens.

Risk recalibration is happening as part of other projects as well—from a comprehensive Office of Human Resources service redesign to an assessment of administrative communications. For example, more than 25 percent of items identified through risk recalibration are being actively considered as part of the ESUP initiative.

Moving forward

Risk recalibration is an essential component of Operational Excellence. Senior leaders are using it to identify ways the University can reset risk related to specific policies and processes. This is an important part of moving towards a more streamlined, nimble, and responsive organization. Additionally, President Kaler has asked each vice president and policy owner to review their policies through the lens of risk recalibration.

As President Kaler noted in his risk recalibration charge, this work will not only improve operational excellence; it will also help the institution get better at organizational change.

Section Five

Summary and next steps

Teaching, research, and public engagement: These are the cornerstones of the University of Minnesota experience, and they guide everything we do. From educating tomorrow's leaders, to making life-changing discoveries, to partnering with citizens throughout the state, nation, and world, we solve problems great and small. Fostering and protecting that mission is our highest calling.

This is why we must reduce the cost of administration whenever and wherever possible. We are dedicated to benchmarking ourselves against our peers, to using new forms of analysis to measure our organizational structures, and to asking the hard questions about where and how we can do things better, more effectively, and at a lowered cost.

We have our challenges, as identified in the executive summary and detailed throughout this report. But we have also made considerable strides in pinpointing and meeting those obstacles.

Through perseverance and hard work, and through our partnership with the State of Minnesota, we know that we can continue to provide a world-class education to our students at the lowest possible cost, while making new discoveries and sharing those with the citizens of Minnesota through our land grant mission. It is our commitment and our only way forward, and we meet it with resolve and determination.

Appendix

- A. Letter from Senators Bakk and Bonoff to University of Minnesota President Eric Kaler dated January 8, 2013
- B. Contracts with Sibson Consulting and Huron Consulting Group
- C. Resources cited

Appendix C: Resources Cited

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